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ANALYSIS OF FINANCIAL DERIVATIVES

ABSTRACT

A method for trading in a financial derivative of an
underlying asset includes determining a trend predictive
5   of a future value of the asset and a predicted variance
of the future value.   Responsive to the trend and the
variance, a density function is calculated, which is
indicative of a probability distribution of the value at
a first time in the future.   Based on the density
10 function at the first time, the density function is
recalculated to find the probability distribution of the
value at a second time, subsequent to the first time, and
a trading decision is made with regard to the derivative
of the asset based on the density function.